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NSC BRIEFING

21 January 1954

INDONESIA

- I. The trend in Indonesia favoring the Communists continues uninterrupted as prospects for the cabinet's overthrow by parliamentary action or a military coup fade.
- A. The opposition has been unable to cause the defection of small party government supporters, and even should these parties defect the government could still rely on the Communist vote in Parliament to insure a majority.
- B. Anti-Communist elements in the army appear unable to organize for forceful action because of lack of political support and disunity in their own commands.
- C. Communist cooperation continues with the National Party, which heads the cabinet, and joint objectives of the National and Communist parties are being achieved.
- D. A major factor in the present situation is President Sukarno's full support of the government.
1. In past, he has not been thought Communist or even pro-Communist but only naive in his confidence to use Communists.
2. Recently, his actions and reported contacts suggest greater sympathy with Communists than formerly believed.

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3.

[redacted] the parliamentary leader of the Communist Party is now his chief adviser.

4. He dealt a heavy blow to anti-Communists in the army by siding with the pro-Communist defense minister in a dispute over the latter's policies.

II. An important propaganda charge of the Communists in Indonesia, and one that has been adopted by the government, is that the United States, by forcing down prices for tin and rubber, is responsible for Indonesia's deteriorating economy.

A. Tin constitutes some 10% of Indonesia's total exports and rubber about 45%.

B. Since US is major consumer of these products, Indonesians are easily convinced that we manipulate prices for our own devious purposes.

III. Fact is that tin and rubber are now selling at prices which approximate those obtaining before outbreak of Korean War but have fallen sharply from boom prices of 1951.

A. But Indonesians tend to look at boom prices as "normal."

B. Without a windfall return of a seller's market, the government faced with serious budgetary problems, trade deficit and increase in unemployment.

IV. Indonesia's tin comes from islands of Bangka, Billiton, and Singkep, where there has been no insecurity from insurgency as yet.

A. Two thirds of output is from government-owned mines supervised by Dutch technicians.

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- B. Remainder from Billiton Tin Co. in which government has controlling share; Dutch interests hold a minor share.
- V. Currently at issue is price which US will pay for 20,000 tons of Indonesian tin during last year of three year contract.
- A. Indonesians worried over price aspect, particularly possibility US will not stockpile new tin as heretofore but put it on market and further depress prices.
- B. Indonesians long interested in buffer stock plan to stabilize prices.
- VI. Bolivia, though not as large a producer as Indonesia and Malaya, is even more dependent on tin exports.
- A. Tin accounts for some 60% of its foreign exchange.
1. Importance pointed up by fact country imports half its foodstuffs.
- B. British firm has contacted to take 52% of Bolivia's tin through 1955.
- C. US has been buying remainder on spot basis at world prices.
1. But estimated that if Bolivia able to sell all 1954 output at present price, return would be inadequate to pay for essential imports.
- VII. Political complexion of present government and deteriorating economy have prompted Indonesians to look to Soviet Bloc as a market.

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A. Rubber and tin mentioned as Indonesian exports in
30 November trade agreement with Communist China.

1. But China is a large tin exporter and its
current rubber requirements are met by Ceylon.

B. Orbit quite ready to hold out bait of more trade for
whatever propaganda it is worth.

1. May actually take some Indonesian products.

a. Recent report stated Soviets working
through Swiss agent for purchase of
50,000 tons Indonesian copra.

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